GOVERNMENT TAXATION POLICIES AFFECTING THE INDIAN HOSPITALITY INDUSTRY TILL 2015

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ABSTRACT

The hospitality sector is among the top 10 sectors in India to attract foreign direct investment (FDI). During the period April 2000 to March 2016, the hospitality sector attracted US$ 9.23 billion of FDI, according to the data released by the Department of Industrial Policy and Promotion (DIPP). The hospitality sector includes majorly both the tourism industry and the hotel industry. The hotel industry acts as a major supporting sector for the travel and tourism industry by providing accommodation and food and beverage services to the tourist. This study examines the difficulties faced by the Indian hospitality sector as a whole, including the challenges faced by the owner as well as the management and potential customers in the long term. This study follows the flaws in some of the government policies and regulatory bodies directly related to the hospitality sector. These policies affect the room occupancy rate for the hotels (rev-par), food and beverage outlets, transport business, local employment opportunities, and destination development, etc. These are a few of the most important concerns which have a long-lasting impact on the business of the hospitality.

Key words: tourism industry, hotel industry challenges rev-par, food and beverages outlet, government policies, Indian economy.

INTRODUCTION TO HOSPITALITY SECTOR

The hospitality sector in India is one of the oldest forms of business. It encompasses a wide range of travel and tourism business activities such as airlines, cruise ship, car rental, recreation facilities, and hotel industry comparison of hotels, motels, banqueting, organizing, meeting, and conventions. The common denominator in all these business activities is service, which is based upon the service of hospitality of welcoming the guest and looking after their needs through exceptional service.

When India agreed to host the 1982 Asian games, a boost was given to the country’s hospitality sector. The National Tourism Policy of 1982 officially recognized tourism as an industry.

HRACC (Hotel and Restaurant Approval and Classification Committee) has been by the Department of Tourism to issue licenses and govern the activities of the hotel.

OBJECTIVES

To understand the present status and scenario of taxation policy on hotel industry.

To find out the impact on government policies towards hospitality sector.

To enumerate how ease of doing business process is important for the overall development of the Indian economy.

INDIAN GOVERNMENT LAWS AND REGULATIONS

The raft of legislation governing the hospitality industry can be divided into three. The first governs the construction and commissioning of hotels, restaurant guest house and other establishments, and includes the foreign exchange management act, the industrial licensing policy, the transfer of property act, and various development control orders issued by the central government and local municipal councils.

The second governs the operation, maintenance, and management of establishment, and the health and safety of occupation. This legislation includes the Indian contract act, health and safety laws, insurance laws (notably, public liability insurance), and fire safety and hygiene regulations. Establishment must obtain various licences such as liquor licences, dance licences, lodging house licence, eating house licences, police permission, licence under shop and establishment act or licences under the food and drug...
administration act all of which are granted on an annual basis, if an establishment fails to meet the requisite criteria the licence is not renewed, effectively closing down the business.

The third set of rules governs taxation, employment and other contractual relationship. This includes laws on income tax, service tax, expenditure tax, excise duty, luxury tax, entertainment/amusement tax, as well as law on pension, gratuity and provident funds and other employment laws.

CLASSIFICATION OF REGULATION OF SYSTEM

From a regulatory perspective, the hospitality industry can be split into the following six categories. Each category needs a specific set of approval and must fulfill specific regulatory requirement.

The premium or luxury sector: five- star or deluxe hotel catering generally to business and up-market foreign travellers. Nearly 30% of all hotel rooms fall into this category.

The budget sector: four to one –star hotel catering to average and domestic leisure travellers and generally found in smaller towns and cities.

Heritage hotel: palaces, haveli (mansion) and forts that have been converted into hotel, thus mixing effective preservation with commercial capability

Resorts and clubs: located in the outskirts of the city, these venues can range from premium to budget quality.

Restaurants: food chains and outlets set up in India. They are usually run by international chains, like domino Pizza, pizza hut and McDonalds

Service apartments: a new concept in India. Expect for a few serviced apartments in Delhi and Mumbai, the market is in nascent state.

Within this broad classification the units are further sub-classified as tourism units for the grant of incentives under various central state government policies.

LICENSING ISSUE

It is a well knows fact among the local and international investors that India a difficult country to start a business. It ranks 130 among the 185 countries in term of doing business due to issues related to licensing . The current regulatory environment into the country makes hotel development a difficult terrain for owner. Beginning with the land acquisition stages for which the archaic laws differ from state-to-state, to securing approval and licenses an owner faces bureaucratic bottleneck irrespective of whether he uses a top- down or a bottom- up approach to cut through the red tape , though the former is likely to yield quicker results.

There are numerous licences and approvals (can add up to more than a 100 in some states) that one need to get in present times to open a hotel in India leading to time, effort and money. Furthermore, the various bodies giving approval/ issuing licenses tend to work in independent silos, leaving the coordination up to the applicant.

INDIA NOT THAT INCREDIBLE FOR FOREIGN TOURIST DESPITE E-VISAS

India’s image as a tourist destination took a beating last year after overseas arrivals grew at the slowest pace in three years and foreign currency earnings dipped as e-visas failed to attract visitors in large numbers and an economic slowdown in some countries cut foreign travel. Tourist arrivals in the country increased 4.55% to 8.03 million in 2015, according to data on the tourism ministry’s website. Earnings from tourism fell 2.8% to $19.6 billion. In 2014, both tourist arrivals tourist arrivals in the country increased 4.55% to 8.03 million in 2015, according to data on the tourism ministry’s website. Earnings from tourism fell 2.8% to $19.6 billion. In 2014, both tourist arrivals and foreign exchange earnings had increased 10.2% and 9.7%, respectively.

“The needle on tourism has not moved at all. After the launch of e-visa, we should have had a marketing blitzkrieg across all overseas markets and coupled that with ‘Make in India’ and other initiatives like ease of doing business, etc. But somehow we weren’t able to link the tourism bandwagon to both these things,” said Kapil Chopra, chairperson of the World Travel & Tourism Council, India Initiative (WTTCII). The government launched e-visas for tourists from 43 countries in November 2014 and widened it to 150 countries in February. Although the number of visitors using this facility surged 11-fold to 445,300, they still accounted for only 5.5% of the total arrivals.

“India is on such a low base (of tourist numbers) that it needs to grow exponentially... To release a statement that there is 1,000% growth in e-visa is giving the wrong perception to the public,” said Chopra, who is also president of the Oberon Group. Industry experts said the e-visa website is often mired in technical and payment gateway-related issues, which further delay the process. One reason cited for slowing growth in tourist arrivals is the lack of efforts by the government to promote India in overseas markets. “Out of the 14 tourist offices that India has in different regions across the globe, 12 don’t have senior-level
representatives or heads to actively promote the country,” said Sarabjit Singh, vice chairman of the Federation of Associations of Indian Tourism & Hospitality.

“We need to grow 30-40% year-on-year on tourist arrivals and there needs to be a blueprint where the government works with the private sector,” said Chopra. France topped the rankings of international destinations in 2014, with 84 million tourists and earnings of $55 billion, while the US was second with 75 million arrivals with $177 billion in earnings, according to the UN’s World Tourism Organization. In a bid to push India's image as a tourist destination, WTTCII is in talks with the tourism world tourism organization.

INDIAN GOVERNMENTS TAXATION POLICY ISSUES

Tourism is highly taxed industry. Few people, outside of the tourism industry, realized just how many taxes travellers pay. Looks at the percentage of taxes paid on an airline ticket, a hotel room, or a rental car. In some locales (be that local a country, city, state or province) almost 40%of the commodity’s cost comes from add-on taxes. When government officials claim that they must provide additional protection services to non-residents they often fail to take into account just how much money non-residents add to a local economy not only through purchases but also through the payment of taxes.

India is facing a slump in the Hotel Industries for approximately five years now. It is facing low occupancy and declining Rev-par over these years. “The general slowdown in the economy has hit the hotel industry. Over the last two years, average room rates have definitely reduced and occupancy has been stagnant,” said SM Shervani, president of the Federation of Hotels and Restaurant Associations of India (FHIARI) as reported by Khosla & Sathyarayanan in 2014. In India, hotels are taxed anywhere between 20% and 25% depending on the state that they are operating in, when other Asian countries are levying 8-10%. In addition to this, different tax structures in different states are difficult for tourists to comprehend. Not to mention that taxes ultimately are levied though the customer pocket, whereas, if some tax relaxation are given to the hospitality industry it will provide a boost to the hotels in term that they will have more operational cost to run their business and financial support to reduce the risk of failure and give endurance to sustain through the slack times. The saved money could find a place in annual budget of the hotel operation to increases the ADR and rev-par through the customer retention strategies opted by the hotel.

DEBT-FUNDING BY THE INDIAN BANKS

Debt-funding for hotel projects in India is characterised by a relatively short loan term, typically of 10-12 years, but with high interest rates of 12-14%. in cities such as New York, London, Dubai and Moscow, the term period of the loan ranges from 20-30 years, with interest rates of 5-7%.

In other cities such as Beijing and Buenos Aires, while the length of the loan term is around 10 years, the interest rate is in the range of 9-10%. According HVS India in September 2013 researched the lending parameters prevalent in select other countries of the world for hotel debt-funding and compared them to the prevailing conditions here.

ECONOMIC ISSUES

Dependence upon the Nation’s Economy

When the nation’s economy is good, business travel generally increases. Hospitality occupancy rates and rack rates increase which result in higher profit levels. The reverse is also true: business travel slows when the economy slow. Then occupancy and rack rates decrease. Discount to increase occupancy are offered, which yield lower revenues and profit decreases.

Some 60 branded hotels are up for sale in India says K. B. Khachru, Chairman, Carlson Rezidor, and South Asia. He further states —this trend is not unique to India; it happens all over the world and more so, when economy is not doing very well. Many Asian, European and American cities have gone through this phenomenon. Primarily it is slowdown of economy that has brought this upon us.

Shah in 2014 said that around six years ago, a night at a luxury hotel in the Delhi region cost on average Rs.10,429—about $259 at the time and on par with several five-star hotels in Singapore. Occupancy rates were an enviable 74%, according to hospitality consultants HVS, as business travellers flocked to India, an economy that was then growing at nearly 10%. Since then, economic growth has halved, reducing the flow of corporate guests who make up about 70% of the business for five-star hotels in cities like Delhi and Mumbai. Average room rates in the capital region have also almost halved to around Rs. 6,850, while occupancy rates were found 55% only.

SECURITY AND SAFETY ISSUES

Security is a major challenge to the tourism and travel industry. The tourism and travel industry should have a major wake-up call on September 11, 2001. Unfortunately many industry leaders simply provided lip-service to security issues rather than confronting the problem. Too many tourism offices or convention and visitors bureaus have no (or almost no) contact with their local police departments. Too many police departments have no officers trained in TOPs (tourism oriented policing/protection services). Too few city councils or local governments have provides their security agencies (e.g., policy departments) with the economic and
manpower resources to protect the visitor and tourism facilities. Almost no community has done a tourism security assessment of its industry’s personnel and sites. Unless the visitor’s security becomes a primary focus of concern, many tourism and travel destinations may face great economic losses in the future.

Safety is another challenge facing the tourism industry. The current population is aging perhaps like no other one in history. As the baby boom generation (those born between 1946-1960) increasingly approaches its 6th decade of life, many of its members are refusing to slow down. Although the baby-boomers bodies are aging, travel and tourism officials are seeing many of these people practicing all sorts of physical activities, from motorcycling to skiing. This “refusal” to sit back and grow old means that tourism officials will be facing all sorts of safety issues. Mobile medical units may be needed, others will need special diets and readily available pharmacies open 24 hours a day and 7 days a week.

Closely related to safety issues are health issues such as pandemics that can easily cause tourism panics. Not only can a drop in water quality (purity) become a major tourism issue, but also the industry must face the reality of pandemics and/or pandemic scares. The SARS “scare” ought to have reminded the travel industry that a few media stories can wreak havoc on the tourism industry’s viability. In a like manner, a nervous public may connect a health event with a potential act of terrorism. The anthrax episodes in Washington, DC are an example of how a nervous public may cease to visit a locale due to health related safety issues.

ROLE OF INDIAN GOVERNMENT AND PRESENT INITIATIVES TOWARDS HOSPITALITY SECTOR

The Indian government has realized the country potential in the tourism industry and has taken several step to make India a global tourism hub. Some of the major initiatives planned by the Government of India to give a boost to the tourism and hospitality sector of India are as follows.

The Union Cabinet has approval a moU between India and south africa , aimed to expand bilateral cooperation in the tourism sector and to exchange information and data, establishing exchange programmes and increasing investment in the tourism and hospitality sector.

The ministry of tourism plans to revise its guidelines he Ministry of Tourism plans to revise its guidelines to exempt homestays from service tax or commercial levies and make their licensing process online, which is expected to encourage people to offer homestays to tourists.

The Union Cabinet has approved the signing of Memorandum of Understanding between the Ministry of Tourism of India and the Ministry of Trade Industry and Tourism of Colombia in order to boost cooperation in the field of tourism between the two countries.

The Central Government has given its approval for signing of a MoU between India and Cambodia for cooperation in the field of tourism with a view to promote bilateral tourism between the two countries.

The Heritage City Development and Augmentation Yojana (HRIDAY) action plans for eight missions cities including Varanasi, Mathura, Ajmer, Dwarka, Badami, Vellankini, Warangal and Amravati have been approved by HRIDAY National Empowered Committee for a total cost of Rs 431 crore (US$ 64.27 million).

Government of India plans to cover 150 countries under e-visa scheme by the end of the year besides opening an airport in the NCR region in order to ease the pressure on Delhi airport.

Under ‘Project Mausam’ the Government of India has proposed to establish cross cultural linkages and to revive historic maritime cultural and economic ties with 39 Indian Ocean countries.

SUGGESTIONS

For everything we need a policy- a sound policy. let me now put forward a few policy suggestion to develop sustainable growth of hospitality sector in India.

1. Indian government need to be liberalized on taxation policies.
2. GST(Good And Sales Tax) should be implemented as soon as possible to increase the potential of hospitality sector
3. Incentives toward private investment on hospitality sector need to be increased
4. Debt funding system by Indian banks should be modified. Interest rate need to be reduced.
5. Enhancing security, stepping up investment and boosting(world class) infrastructural activities should be on the top of the agenda. Service quality- in hotel, airport, railway station etc- need to be upgraded.
6. Proper market segmentation should be done on the basis of criteria like demographic, socioeconomic and geographic variables. Yet a holistic approach should be the objective to project an incredible and inclusive India. Commercialization should not result in dehumanizing tourism.
7. E-Visa process should be extending to few more countries to attract large number of foreign travellers.
8. Education, research and training are crucial cogs in the wheel of tourism.HRD shuld be given priority. Adequate importance should be given to inductive research on historical importance and complementary relevance.
CONCLUSION
The Indian tourism and hospitality industry has emerged as one of the key drivers of growth among the service sector in India. We are subject to numerous federal, state and local government laws and regulation affecting the hospitality industry, including usage, building and zoning requirement. A violation of any of those laws and regulation or increased government regulation could require us to make unplanned expenditures and result in higher operating costs. In addition, our success in expanding our hotel operations or engaging in condo-hotel conversions depend upon our ability to obtain necessary building permits and zoning variances from local authorities. Compliance with these law in time intensive and costly and may reduce our revenues and operating income.
Indian government taxation policies and regulatory system must be modified according to the demand of the traveller and investor. Indian government regulatory measure should ensure the need of the tourism industry to protect the potential hospitality sector to the larger extend.

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